FDIC State Profile

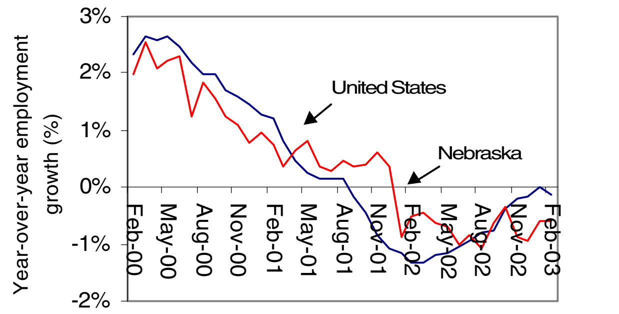
SUMMER 2003

Nebraska

The Nebraska economy was less severely affected by the recession than other states in the Region.

- Employment growth in Nebraska slowed along with the nation during 2000, but the state lost relatively few jobs during 2001 (see Chart 1). Declines in manufacturing employment were offset by continued growth in the services and government sectors. Nebraska lost significantly more jobs in 2002, with the rate of decrease reaching the national level by the end of the year.
- In early 2003, job growth continued to lag the nation's due to weakness in the manufacturing sector, but all other sectors are now showing growth.
- The unemployment rate declined to 3.4 percent in January 2003, the lowest level in 12 months, but then up-ticked slightly to 3.5 percent in February.
- Government employment may be at risk by 2004, a result of the state's continuing budget deficit.

Chart 1: Employment Growth Continues to Lag National Rate

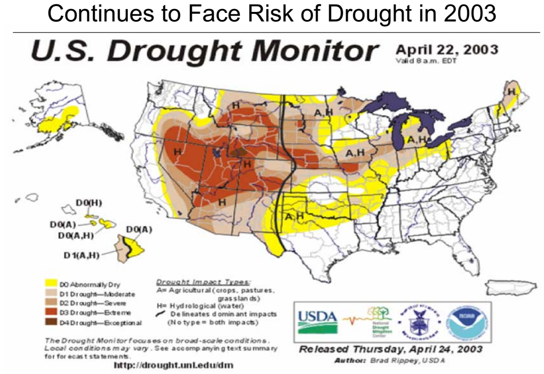


Source: Bureau of Labor Statistics/Haver Analytics

Severe drought conditions continue to threaten Nebraska's agriculture in 2003.

- Drought conditions persisted during the winter of 2002-2003, increasing the likelihood of continuing difficulties for farmers in the upcoming growing season (see Map 1).
- In April, the United States Department reported that 56 percent of Nebraska's pastureland was rated poor or very poor, posing continuing difficulties for the state's cattle producers, who generate 53 percent of the state's agricultural revenues.
- Long-term water shortages in the western part of the state are now likely to persist, the result of four consecutive years of subnormal precipitation.

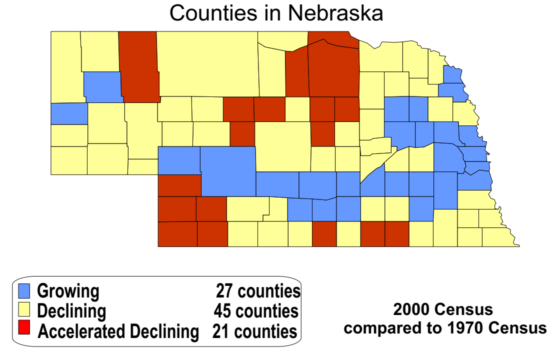
Map 1: Nebraska's Agriculture Sector Continues to Face Risk of Drought in 2003



Depopulation in rural areas is a continuing challenge.

- Population has declined in sixty-six of Nebraska's 93 counties since 1970; population in 21 of those counties declined at an increasing rate during the 1990s (see Map 2).
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become less dependent on nearby small towns to purchase inputs and professional services.
- As a result, people have migrated from rural to metropolitan areas seeking better employment opportunities.

Map 2: Depopulation Affects Most Rural Counties in Nebraska



Severe drought conditions threaten asset quality among many of the state's farm banks.

- Much of Nebraska currently remains in "severe" drought, following "severe" to "exceptional" drought conditions in 2002. These weather problems follow four years of very low crop prices that left many farm banks holding substantial levels of carryover debt.
- Chart 2 shows that farm banks in areas of prolonged drought (predominantly in Nebraska and northwest Kansas) report higher loan delinquency levels than areas less seriously affected by drought.
- Positively, the December 2002 median capital ratio of 10.4 percent for farm banks headquartered in Nebraska remains high by historical standards and is well above levels during the 1980s farm crisis and 1988 drought.

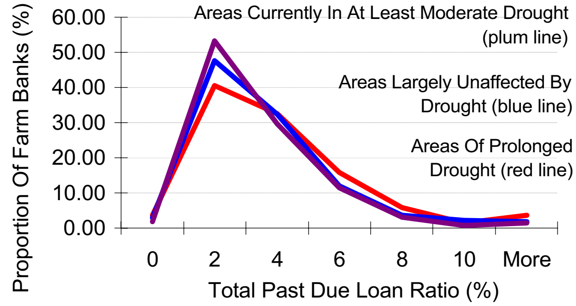
Community banks headquartered in Nebraska continue to face challenges in maintaining net interest margins.

- Net interest margins (NIMs) declined steadily in the 1990s, because of strong and increasing loan and funding competition as well as depopulation trends in rural areas (see Chart 3).
- Recent NIM fluctuations, both positive and negative, are attributable to Federal Reserve interest rate actions, and do not signal an end to the longer-term trend of NIM erosion.
- Generally, banks that accept greater credit risk by making more loans are rewarded with higher NIMs. However, this did not hold true in the 1990s, as community bank NIMs declined despite dramatic increases in loan-to-asset (LTA) levels.
- Economic slowdowns typically result in declining LTA ratios, and community bank NIMs could be pressured downward should LTA levels return to historically normal levels.

Community institutions in Nebraska continue to face funding challenges.

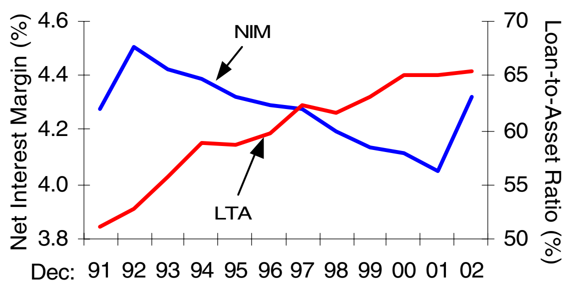
- Utilization of core funds to support assets declined steadily throughout the 1990s because of negative population trends, competitive challenges from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets. As a result, the median core deposits to total assets ratio for community institutions declined from 83 percent to 72 percent between year-end 1992 and year-end 2002.
- To counter declining deposits, community institutions headquartered in Nebraska increased reliance on noncore funds, such as large time deposits and borrowings.

Chart 2: Farm Banks Experiencing Prolonged Drought Report Higher Loan Delinquency



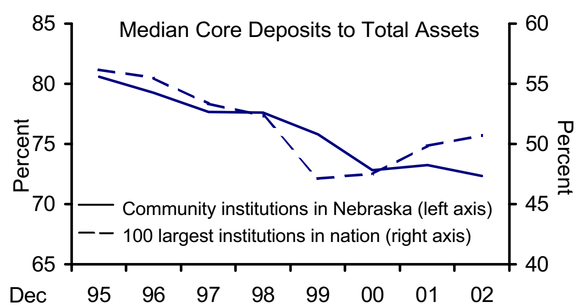
Source: Bank and Thrift Call Reports, farm banks in Kansas City Region

Chart 3: Net Interest Margins Have Eroded Despite Increasing Loan-to-Asset Ratios



Source: Bank and Thrift Call Reports, commercial banks with assets less than $250 million headquartered in Nebraska, excluding de novos and specialty banks

Chart 4: Core Funding Has Increased at Larger Institutions More Than Smaller Institutions



Source: Bank and Thrift Call Reports. Community institutions are FDIC-insured institutions with total assets under $250 million headquartered in Nebraska.

- The weak economy and significant declines in the stock market have prompted a great shift of deposit funds into the banking system. However, as seen in Chart 4, most of the benefit has accrued to the nation's larger banks.
- See *"Kansas City Regional Perspectives - Despite Recent Deposit Growth, Community Banks Continue to Face Funding Challenge,"* FDIC Outlook, Spring 2003, for further discussion about funding.

Nebraska at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	281	290	291	315	328
Total Assets (in thousands)	48,215,028	47,074,100	45,171,214	44,264,765	42,267,293
New Institutions (# < 3 years)	4	6	4	6	10
New Institutions (# < 9 years)	18	18	15	17	18

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.54	9.50	9.50	9.33	9.50

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	2.08%	2.03%	1.77%	1.60%	1.71%
Past-Due and Nonaccrual >= 5%	30	40	30	29	38
ALLL/Total Loans (median %)	1.53%	1.56%	1.47%	1.56%	1.56%
ALLL/Noncurrent Loans (median multiple)	2.09	1.95	2.20	2.05	1.94
Net Loan Losses/Loans (aggregate)	0.52%	0.62%	0.42%	0.50%	0.63%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	9	18	12	9	7
Percent Unprofitable	3.20%	6.21%	4.12%	2.86%	2.13%
Return on Assets (median %)	1.10	0.97	1.10	1.11	1.14
25th Percentile	0.77	0.61	0.79	0.79	0.84
Net Interest Margin (median %)	4.27%	4.10%	4.21%	4.19%	4.22%
Yield on Earning Assets (median)	6.95%	7.97%	8.39%	7.97%	8.27%
Cost of Funding Earning Assets (median)	2.69%	3.90%	4.21%	3.83%	4.04%
Provisions to Avg. Assets (median)	0.13%	0.13%	0.08%	0.10%	0.10%
Noninterest Income to Avg. Assets (median)	0.52%	0.51%	0.48%	0.51%	0.49%
Overhead to Avg. Assets (median)	2.78%	2.75%	2.73%	2.69%	2.72%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	79.78%	77.64%	79.22%	74.75%	72.28%
Loans to Assets (median %)	65.45%	65.08%	64.95%	62.71%	61.62%
Brokered Deposits (# of Institutions)	83	80	82	90	104
Bro. Deps./Assets (median for above inst.)	2.58%	2.45%	2.60%	2.21%	3.17%
Noncore Funding to Assets (median)	16.48%	15.37%	15.48%	13.71%	12.03%
Core Funding to Assets (median)	71.21%	72.44%	72.23%	74.99%	75.86%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	175	179	184	190	199
National	75	78	76	90	95
State Member	18	18	16	21	21
S&L	5	5	5	5	5
Savings Bank	8	10	10	9	8
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	232	15,587,550	82.56%	32.33%
Omaha NE-IA	33	27,960,551	11.74%	57.99%
Lincoln NE	13	4,392,005	4.63%	9.11%
Sioux City IA-NE	3	274,922	1.07%	0.57%